

Perfect partners

Peter Kinch explores joint-venture capital: why some succeed while others do not



I would like to preface a discussion about JV partners by sharing some of my personal observations over the years. As a speaker and educator to various real estate investment groups across Canada and in the numerous workshops that I have conducted, the term “joint-venture partner” is probably the most overused and misused term tossed around today. It would not be an exaggeration to say that over 90% of the individuals and couples that I meet and consult with have no alternative other than using JV partners if they truly hope to accomplish their goals. I am not being cynical or negative – I am simply stating a fact. Personally, I have no problem with using JV partners. In my investment career, I have been on both sides of the fence – both a money partner and a deal finder. I believe that learning how to create, attract and develop a proper JV partnership can indeed be the secret gem to creating real estate success. If you learn how to do it properly, it truly can provide you with the keys to the proverbial vault. I have witnessed this personally and professionally many, many times.

Having said that, I also believe that far too many people are walking around seminars and workshops today throwing out the term “joint venture” as if it were a simple magic bullet that will solve all your real estate needs.

“Don’t have any money?” Don’t worry, use a JV partner. “Can’t qualify for a mortgage?” Don’t worry, use a JV partner. “Don’t know how to buy real estate?” Don’t worry use a JV partner...

The result: too many novice investors are running around under the false belief that this is a simple, magical solution to all their woes.

The majority of investors, however, conceptually understand the need to use JV partners, but no one has ever actually sat down to show them how and, therefore, their real estate dreams and goals have been put on hold as they sit in the realm of analysis paralysis – not sure how to do it, deathly afraid to and, in the end, totally inactive.

The average investor will spend their money and focus on how much they are making in the process. Then, when their

proverbial car runs out of gas, they start worrying about how to deal with finding a JV partner. They typically have not prepared themselves, or their portfolios, to properly attract JV partners. Their car is empty so now they begin to look for a gas station.

The first step in being successful at attracting JV Capital is to shift the focus from them to you. If you currently have money to invest in a few properties but not quite enough to purchase the amount you will need to accomplish your goals, then you will likely be looking to joint-venture capital as your solution. If this is the case, then the way in which you spend your money and how you develop as a person will be the biggest factor in determining your future success in attracting JV Capital. I suspect that everyone reading this right now has a relatively good idea as to how

trust me with their money? Are you that person today? Is there anything you need to change in order to become that person? What if, in the process of spending your seed capital, instead of concentrating on what you are buying, you focus on becoming the person you need to be in order to attract JV capital in the future? It is important to understand that you don’t need to be that person today – you need to become that person. When you start thinking this way, it will change the role and purpose of your seed capital. Seed capital is now no longer simply cash for a down payment. It’s the tuition fee that allows you to develop into a sophisticated real estate investor who is well positioned to be able to attract JV capital in the future. In order to understand this, they, and you, need to learn about CCI – Confidence, Credibility and Integrity.

» What if you projected yourself 18 months into the future and asked yourself the following question: Who would I need to be in order for someone to believe enough in me to trust me with their money?

much money you have available that you are willing and able to invest in real estate today. This could be cash in the bank, money from other investments that you are willing to liquidate, or equity in one or more properties that you can access. I like to refer to these funds as your ‘Seed Capital’ – the money you have available to you to start your real estate investment business.

What if, instead of focusing only on what kind of real estate you are going to buy over the next 18 months, you shifted your focus to thinking about what a potential JV partner would want to see in you? What if you projected yourself 18 months into the future and asked yourself the following question: Who would I need to be in order for someone to believe enough in me to

CCI: The secret to attracting JV capital

Over 90% of all the real estate investors I have worked with or spoken to over the years eventually come to the point where they turn to joint-venture capital as a solution to their lack of seed capital. I have taken a good hard look at why some people succeeded, while others did not. And in the process I boiled it down to one simple thing – character.

Investors who focused on trying to “sell” their deal to a potential investor always stumbled; but those investors who had strong character, who were able to garner a sense of trust and confidence, were successful. This is why I developed and started to teach the concept of CCI.

You can do all the calculations in the world and spend all your time putting together the greatest PowerPoint

THINGS TO BRING TO THE TABLE:

You have gained expert knowledge in your field.

You have developed a good team.

You have become an expert within the area of real estate that you are purchasing.

You have got the time to do it.

You have developed CCI.

You have developed a successful track record.

You have developed the ability to give a good presentation when you're sitting down with potential JV partners.

THINGS I NEED TO WORK ON:

presentation ever created, in an attempt to convince your prospect of why they should invest with you; but in the end, if the person on the other side of the table isn't 'buying' into you – then nothing else matters. Your character and the ability of the other person to trust you are everything. If you exhibit confidence, credibility and integrity, which allows the other person to trust you, then your presentation can be on the back of a napkin at a restaurant and you will be more successful.

JV partnerships are like potlucks

One of the most important steps to being successful in attracting JV capital is to understand your own importance. In order to do this, you have to know your role in the process.

A JV partnership is just like a potluck – it's only successful if everyone brings something different to the table. It's important to know what the other person is bringing to the table, but it's even more important to know what you are bringing to the table. The bottom line is you have to be clear what it is that you bring to the JV and you need to be equally clear on what you are looking for in a JV partner.

What do you bring to the table?

Before you know what to look for in other people, you need to be clear on what it is that you bring to the table.

Take the time to look at the following chart. On the left-hand side are some

of the things that a real estate investor could bring to the table. On the right-hand side are things that you need to work on, assuming that you have not gained efficiency in that area. This will then become the list of things that you can focus on as you spend your seed capital over the next 12 - 18 months, which will develop your CCI.

I have been consulting investors on this topic for many years now and virtually every consultation results in giving the investor the following two homework assignments in order to help them fully understand the value and importance of what they bring to the table:

The first homework assignment is designed to put the investor into the shoes of the person they will be talking to. To do so, simply ask yourself this question: 'Imagine that you and your spouse have saved up some equity in your home or some cash to invest. Now imagine yourself having a conversation with a real estate investor who has presented you with a joint-venture proposal. How would the conversation at home go if you walked in the door and told your spouse that you are going to give this individual your savings to invest on your behalf in exchange for only 50% of the deal?'

I could probably guess exactly what that conversation would sound like in 99% of the homes across Canada. Yet, this is exactly the position we are putting them in when we are asking them to trust us with their money. So

the question is; what would you or your spouse need to see in someone else before you would ever consider giving them your money? The homework assignment: make a list of 10 things you would need to see in someone else before you would ever consider giving them your money.

Remember, this is your seed capital and you will trust someone else to invest it for you. What 10 qualities would you need to see in a person before you could trust them?

You have just created a list of 10 things you need to focus on and become cognizant of developing in yourself over the next few months as you spend your seed capital.

The question that can kill a deal

You have now put yourself in the other person's shoes and you have a better understanding as to what you need to develop in yourself, but there is still an important hurdle that every real estate investor will face once they have spent their own seed capital and begin seeking joint-venture partners. There is always one question that will come up every time that kills most deals. It is inevitable and very predictable. 'How much money are you putting into this?'

That's exactly the question that virtually every investor fears when sitting down with a JV partner, and it's the question that will invariably cause you to stutter, pause, fumble around for words and boom! Right there

ISSUES TO CONSIDER

- ▶ What happens if someone can't or doesn't want to honour their financial commitments?
- ▶ What are the roles and responsibilities of the different parties?
- ▶ What type of decisions can be made by whom?
- ▶ Can new participants be admitted?
- ▶ What if one of the parties wants to retire before the agreed termination of the joint venture?
- ▶ How will you resolve any disputes between the parties?
- ▶ How will you agree on the appointment of third parties?

you've lost the deal. What's important to understand it that when someone asks you that question, the underlying assumption on their part is that their money is more valuable than your time, knowledge and effort.

And can you blame them? I mean really, isn't your money important to you? If money isn't the most important or valuable part of the transaction, what is?"

To me, the critical point of success is the need for you to understand and appreciate your own self-worth in the JV partnership. In other words, become cognizant of the value you bring to the table. Homework assignment #2 is designed to do this.

Before you purchase your next property, pick up a diary or journal and write down every single step in the process of making that purchase. Write down in detail, how much time

and effort each step took – so much so that you could teach a one-day course at your local college on how to buy a single rental property. My guess is that by the time you have completed this exercise you will discover just how much work it really is and how much knowledge you have actually developed in the process. Once this list is complete, ask yourself this simple question:

'If I were to do all the items on that list and deliver it in a silver bowl to a potential JV partner, and all they had to do was to provide the down payment – would I feel that I have earned my 50% of the deal?'

In most cases, when you become aware of the value you bring to the table, the answer is an emphatic YES. When this moves from a theory or concept to something you truly believe, you will no longer fear that question and will be more than prepared the next time anyone asks how much you're putting into the deal.

By doing these two homework assignments and by spending your seed capital in such a way that you develop your CCI you will develop total clarity as to what is involved in the process. You will know how much of your time will be required, and more important than anything else, you will be completely aware of the value you bring to the table.

Most people that I have met and consulted sell themselves short. They underestimate the value they bring to the JV partnership. If you have purchased

more than three properties on your own (especially if they are commercial), and you have developed great relationships along the way with your team of professionals (lawyer, Realtor, broker, etc.), and if you know how to find the deal and deliver it packaged on a silver platter so your JV partner only has to sit down with you and review the deal for an hour and write a cheque, who has earned more in the deal? Now keep in mind that your JV partner is not going to be thinking this way, simply because they don't know what they don't know. If they have never gone through this process then they do not yet have the ability to understand what value you bring to the relationship. But because you know your value before you start, you can be the "Jedi Master," managing their expectations along the way and educating them throughout the process, which will garner even more trust in the relationship.

The bottom line is to know your worth and not sell yourself short and that is the one key thing that separates those who succeed in attracting JV Capital from those who don't. 🏠

Peter Kinch is an author, speaker, entrepreneur and investor who has been educating Canadian mortgage consumers for over 10 years, and is recognized as one of the foremost Canadian experts in financing real estate portfolios. Kinch will be a guest speaker at the Investor Forum in March at The Carlu in Toronto.



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